Review Article: Post-1982 Effects of Neoliberalism on Latin American Development and Poverty: Two Conflicting Views

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I. Introduction and Overview

Since the early 1980s, Latin America and the Caribbean (LAC) countries have undertaken a profound economic revolution. What began as a hit-and-miss reform process in Chile in the 1970s has now spread to most of the region. Many LAC countries are now pursuing market-friendly policies with the help and push of Washington and international agencies. The question is: Have the reforms and new policies been beneficial or detrimental?

This review article is based on two books that describe, analyze, and debate the revolution known as neoliberalism—the model of market-friendly, laissez-faire development policies that began for most LAC countries after the debt crisis in 1982.[1] The first book, by World Bank chief economist for Latin America, Sebastian Edwards, interprets the fundamental shift toward free markets and a reduced role for the state as being sound and beneficial, overall. The author of the second book, Duncan Green, believes the neoliberal model is having a devastating impact on the region's poor and middle classes and on the region's future development possibilities.

Both authors agree that the old protectionist, import-substitution model of industrialization was no longer viable by 1982 and that the debt crisis required economic reforms. The old inward-looking model of development had produced solid growth for 3 decades. Latin American gross domestic product (GDP) increased by more than 6% per year, on average. But then import-substitution industrialization created increasing inefficiencies of protectionism and corruption that crippled growth.

The effectiveness of the import-substitution model was also greatly

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diminished by increasingly restrictive government controls, inflation, and fiscal deficits. Public-sector growth and government rose precipitously during the 1970s and early 1980s, while regressive tax systems added little revenue. As domestic spending and deficits increased, so did inflation. Exports stagnated and became less competitive internationally as inflation increased and fixed exchange rates became highly overvalued.

Latin American countries became increasingly dependent on foreign borrowing to finance import-substitution industrialization after the oil shocks of 1973. Even the oil-exporting countries—Mexico and Venezuela—became heavily indebted in order to fund their development programs. Recession in the West, combined with inflation and rising interest rates, produced conditions under which Latin America could no longer service its debt.

Up to this point, Sebastian Edwards and Duncan Green tell similar stories. But from this point on, their descriptions and interpretations of the post-1982 free-market reforms begin to diverge. Whereas Green argues that neoliberalism has made the region's economies even more vulnerable, Edwards stresses that free-market reforms have produced greater macroeconomic stability. Getting prices right, reducing government controls and deficits, privatization, and promoting exports also created new opportunities for growth and development. To Edwards, the region has moved from despair toward hope and new opportunities, albeit ones fraught with potential problems.

Both Edwards and Green recognize that poverty and inequality have actually worsened after the free-market reforms. But Green, unlike Edwards, does not believe that Latin American policy makers are initiating substantive efforts toward alleviating poverty and inequality. Edwards emphasizes the need to confront poverty after a decade of stabilization and adjustment. To Green, a deep commitment to poverty reduction requires a complete turnaround in the perceptions and priorities of western governments, the International Monetary Fund (IMF), Latin American elites, and the World Bank, a shift that seems inconsistent with the neoliberal model.

Financially strapped Latin American governments have had to conform to Fund and Bank policies in order to qualify for loans to maintain debt service to the West. This "advice" required large devaluations of currencies, fiscal stringency, and privatization that resulted in depressionary conditions, massive unemployment, and negative economic growth. Countries that slowed debt service to avoid such ill effects, however, were threatened with punishments including trade and credit sanctions from the international community.

In what follows, I present the plan of each book followed by a more detailed analysis of basic arguments and evidence for and against each author's interpretation. Then the policy implications of each book are briefly evaluated.

II. Sebastian Edwards: *Crisis and Reform in Latin America*

After an introductory overview of the reforms introduced between 1982 and 1993, Edwards arranges his book in three parts that follow the chronology of Latin American policy developments.

Part 1 recounts the period after the debt crisis from 1982 to 1987. Chapter 2 describes the massive transfer of resources from Latin America to the industrial nations. Argentina, Brazil, and Peru attempted adjustment with heterodox plans aimed at reducing inflation based on the structuralist model, but failed. Chapter 3 describes how their failures and the successes of Chile and the Asian Newly Industrializing Countries (NICs) ignited intense evaluation among the region's political leaders and elites, followed by a precedent-setting convergence of views in Latin America. Thus began a process of change from protection and intervention toward openness and competition.

Part 2, chapters 4–8, covers the years 1987–93 and focuses on recent reforms and their outcomes. Chapter 4 concentrates on efforts to deal with macro stabilization, the debt overhang problem, and fiscal reforms. By the mid-1980s, most Latin American leaders realized that they faced three fundamental problems: first, to permanently reduce the gap between aggregate expenditures and income; second, to lower inflation to reasonable levels; third, to generate a stable macro environment conducive to growth.

Chapter 5, "The Opening of Latin America," deals with trade liberalization. Edwards argues that opening Latin America to international competition constituted the most powerful transformation process because it improved productivity growth and overall economic performance, and expanded exports significantly. This chapter highlights the crucial role that real exchange rates play in successful trade reform by limiting imports and expanding exports through devaluations. The chapter also analyzes the massive capital inflows that have created overvaluation of real exchange rates in most Latin American countries.

In chapter 6, "Privatization and Deregulation," Edwards shows how deregulation and large-scale privatization changed the economic landscape of Latin America. Between 1985 and 1992, more than 2,000 publicly owned firms, including airlines, public utilities, banks, insurance companies, highways, ports, and retail shops were privatized throughout the region—more than 97%, 87%, and 62% of state-owned firms in Chile, Mexico, and Venezuela, respectively. Foreign firms were allowed to participate in sectors previously off-limits. Edwards shows that factor productivity increased while prices to consumers decreased after successful privatizations in Chile, Mexico, and Argentina.

Deregulation of financial markets and its impact on savings and investment are described in chapter 7. Between 1982 and 1990, most countries freed interest rates and completed many financial market reforms. For example, direct credit allocation rules were eliminated and commercial banks' reserve requirements were lowered and harmonized. Barriers to entry were reduced. Both allocative and operational efficiency increased. However, despite freer and higher interest rates, aggregate savings responded sluggishly. Edwards analyzes these problems and suggests new policies that the region's governments must initiate in the future to increase saving.

Chapter 8, "Poverty, Income Distribution and Human Resources," shows that the share of income going to the lower 20% of the population consistently declined between 1950 and the late 1970s. Although poverty and income distribution deteriorated after the debt crisis, human development indices—life expectancy, education, potable water, and so forth—improved. Edwards emphasizes that economic growth and education are the main levers to decrease poverty in the long run, but that short-run alleviation may also be required.

Part 3, chapter 9, deals with future prospects for the region following the Mexican crisis of 1994. The most pressing problem is to consolidate the market-oriented reforms, especially since policy reversals have been common in Latin America's history. The quick downward spiral in Mexico has generated widespread concerns about the strength and resiliency of neoliberal reforms. To Edwards, the Mexican crisis vividly shows the need to pursue three broad policies of poverty reduction and greater equality for the region. He would, first, emphasize policies conducive to growth that create employment and generate higher wages; second, vigorously implement programs that raise the standard of living of the poor in the short run; third, reduce inequality and provide efficient public services for the middle class.

Edwards believes that "countries could be much more aggressive in reallocating public resources toward targeted social services, without impairing the fiscal adjustment or the pursuit of other efficiency objectives . . . and should aim at generating an increase equivalent to 2 to 3 percent of GDP by broadening the tax base, improving tax collections, and reducing evasion. Additional revenues can be obtained by eliminating subsidies . . . to the wealthier segments of society" (p. 313).

The book ends with questions about the future of Latin American reforms. If the first priority is to consolidate the reforms, then how is a reform process consolidated? Edwards believes that "at least a majority of the population must recognize that the reform process will generate, sooner rather than later, sustainable and solid results in the form of rapid growth and improved social conditions" (p. 303). But consolidation also requires new institutions that shield the economy from the short-run effects of the political cycle through higher growth, equalizing progress across society, and reducing crime and corruption.

Despite the substantial post-1982 neoliberal reforms, by early 1994, only Chile had fully entered the consolidation phase with broad political support for openness, market orientation, macroeconomic stability, and poverty alleviation. And only in Chile did the probability of a policy reversal seem to be very low among Latin American countries.

Until the Chiapas uprising of January 1994, many observers believed that Mexico had consolidated its reforms. Mexico became a victim of unfortunate political events, such as the assassination of presidential candidate Luis Donaldo Colosio and also the instabilities inherent in currency devaluation. By mid-1996, the economy was still shrinking, though more slowly, and the question became how soon Mexico would be able to rekindle its growth and consolidation.[2]

Edwards recommends four broad actions to insure consolidation of neoliberal reforms in Latin America: first, prudent macroeconomic management must be maintained; second, structural and institutional reforms must be deepened to improve productivity; third, governments must implement decisive social programs to reduce inequality and alleviate poverty; and fourth, the state itself must act decisively only where the private sector hesitates or fails. Otherwise, the state should provide social services for the poor, quality education, basic infrastructure, a credible regulatory system that encourages investment and protects consumers, a macroeconomic environment conducive to export expansion, and rules that protect the environment.

According to Edwards, the key lesson to be learned from the Chilean experience is that there is substantial time required for neoliberal reforms to generate sustained economic growth, low and stable inflation, export booms, and permanent increases in wages. It takes time for resources to be reallocated, for new projects to come to fruition, and for new international markets to open. Now that the debt crisis is over, impatience is growing in some countries, but attempts to skip phases in the reform process do not work. For example, Brazil's attempt to skip the macroeconomic stabilization phase has proved costly and unsuccessful, and in Bolivia, the Dominican Republic, and El Salvador, public-sector deficits have shown an upward trend. Realizing that many countries are still vulnerable, Edwards stresses that multilateral and bilateral institutions must support the reform process by providing funds and technical assistance to facilitate the transition to a modern system.

III. Duncan Green: *Silent Revolution: The Rise of Market Economies in Latin America*

Silent Revolution has an introduction, eight chapters, a concluding section, and two appendixes. Appendix A is a country-by-country guide to the Latin American economy, 1982–94, and appendix B compares the rival economic models—neostructuralism, import substitution, and neoliberalism. It also includes a useful glossary of terms on structural adjustment–neoliberalism, a recommended reading list, and an index.

The introduction defines neoliberalism for the reader in several dimensions. First, it is defined as the unhindered operation of the market, memorably described by Adam Smith as the "invisible hand." Second, neoliberalism is also monetarism, formalized by Irving Fisher as the quantity theory of money. The neoliberal policy recipe, also recently known as the Washington consensus, is unvarying: the solution to any region's underdevelopment is to free up entrepreneurship and excise the bureaucracy in a three-stage economic transformation consisting of stabilization, structural adjustment, and export-led growth.

Green cites Bolivia as the favorite neoliberal success story (inaccurately, because Chile is). In mid-1985, a new government took power during a time of acute economic crisis. Inflation, driven by fiscal deficits, was running at an annual rate of 23,000%, the economy had been shrinking for 5 years straight, real wages had fallen for 4 out of 5 years, and foreign debt repayment had been halted for more than a year.

Then, in August 1985, Presidential Decree 21060 enabled Bolivia to reschedule its debt payments to Western governments and commercial banks. The main measures used were the following: removing restrictions on exports and imports; establishing a single, flexible exchange rate; freezing public-sector wages for 4 months; ending fixed prices on most goods and services; requiring state companies to present plans for "rationalizing" (i.e., sacking) staff; "free contracting," giving private firms permission to fire and hire at will.

After this harsh medicine, "good" things happened: the IMF gave Bolivia $57 million in credits; the World Bank began lending after a 3-year hiatus; and creditor nations rescheduled debt on favorable terms.

Prior to neoliberal reforms, Bolivia had been a miserable, poor economy with hyperinflation. After reform, inflation fell, stabilization was achieved without a severe recession, and the economy grew, though slowly. Some 76,000 jobs were created over 4 years. New nontraditional crops such as soybeans and coffee boosted exports while tax reform increased government revenues.

But, according to Green, the bad news far outweighed the good. Bolivia had a miserable economy with stable prices rather than hyperinflation. Poverty became much worse—97% of the rural population became poor. Most credit and investment went to big agribusiness exporters. Barriers to cheap imported food fell to such a degree that Bolivian peasants could not sell their crops. Malnutrition soared. Infectious diseases increased. And factory managers rid themselves of troublesome union representatives.

As protections disappeared, cheap consumer imports bankrupted over 120 of Bolivia's factories. Many fired workers had to become street sellers in the informal economy. By 1991, there was a street seller for every three families in Bolivia's cities. The neoliberal crusade to "remove rigidities" in the labor market weakened unions and effectively abolished the 8-hour day, the minimum wage, and labor contracts.

Despite stabilization, structural adjustment in Bolivia failed to bring either domestic or foreign investment, and the country remained dependent on foreign aid; that, along with the cocaine trade, provided a cushion against the worst aspects of adjustment. But privatization was slow. No one wanted to buy public firms.

Had it not been for coca dollars, Green believes the stabilization itself would have failed. Coca dollars brought in foreign exchange and jobs and allowed the government to maintain a high level of imports. By asking no questions, the government facilitated the infusion of up to $20 million a month into the banking system through money laundering. In Green's opinion, neoliberal programs, rather than low inflation rates, stabilized poverty in Bolivia.

In the ensuing chapters of his book, Green is critical of Western governments, the World Bank, the IMF, Western commercial banks and oligopolistic transnational firms, as well as the elites and neotechnocrats of the South. He approvingly quotes a Central American intellectual who observed: "Neo-liberalism has united the elites of the South with those of the North and created the biggest convergence of financial, technological, and military power in history."[3]

Chapter 4, "Silences of the Revolution: The Human and Environmental Costs of the Adjustment," asks what role structural adjustment played in the 42% increase in the number of people who lived in poverty during the 1980s, when 60 million new names brought the total of Latin Americans in poverty to nearly 200 million.

Green disputes the World Bank's claim that "without adjustment, the condition of the poor would have no doubt been worse."[4] There is, in fact, no scientific means of disproving this assertion. The World Bank's attempt to justify its rationale by modeling counterfactuals, however, is weak because such studies are largely hypothetical and often come to diametrically opposite conclusions.[5]

The connection between neoliberalism and increased poverty is usually indirect and hard to prove, but there are exceptions. In Bolivia, Decree 21060 facilitated the wholesale firing of thousands of workers who just happened to be union activists. Another exception is where government cutbacks directly led to a "sharp fall in wages among remaining public employees, the sector worst hit by adjustment. Public-sector pay packets shrank by 24 per cent in Costa Rica (1981–88) and 56 per cent in Venezuela (1981–90)" (p. 95).

Similar statistics of wage depression and unemployment relate to public-sector reductions in Bolivia, Chile, Mexico, Argentina, and Peru. Even during the recovery of the 1990s, much of Latin America, like Britain, experienced jobless growth. For example, unemployment grew by 3% a year in Latin America between 1990 and 1994. Government cutbacks also whittled away the already paltry welfare programs and pensions for the elderly. And tax systems shifted from progressive income taxes toward regressive sales taxes, to the further detriment of the poor.

Inflation rates also had a negative impact on the lagging wages of the poor throughout the 1980s before beginning to fall after 1990. Spending plummeted for public health and social services. Eighty percent of new jobs after 1990 were created in the informal sector of the self-employed, from garbage recyclers to street vendors selling cigarettes and lottery tickets. Meanwhile, the environment also suffered. Rampant environmental destruction was encouraged in the Amazon and elsewhere by World Bank loans and unrestrained free-market capitalism. Green sums up the experience: ''By 1995, after 13 years of debt crisis, adjustment and undoubted pain, most Latin Americans are still waiting for the long-promised benefits of structural adjustment to 'trickle down' to their neighborhoods. The further round of belt-tightening and austerity that followed the Mexican crash of 1995 will push the promised revival still further off'' (p. 111).

Chapter 7, titled ''Export or Die,'' is highly critical of neoliberalism's effects on trade. Latin American countries had to unilaterally open up their economies in a protectionist world economy, permitting increased imports without any reciprocation. Moreover, the deregulation of Latin America's financial markets and the influx of foreign capital caused overvalued exchange rates and high domestic interest rates that reduced the region's export competitiveness. Globally, Latin America's share of world trade slipped from 5.4% to 4% by 1994. But while the largest countries—Brazil, Mexico, and Argentina—absorbed over 95% of total aggregate foreign net transfers and increased their share of trade from 49% to 61% of the region's total between 1982 and 1992, trade was mostly stagnant for smaller primary exporting and services-producing Latin American countries. The latter had little foreign assistance and also faced declining terms of trade.

Chapter 8, titled ''Other Paths,'' searches for major alternatives to neoliberalism. Recognizing that criticism is not enough, two alternatives are considered: first, neostructuralism as formulated by the United Nations Economic Commission for Latin America and the Caribbean (CEPAL); second, an alternative path centered on a model of export growth as followed by NICs, best exemplified by South Korea and Taiwan.

Neostructuralism as formulated by CEPAL expands the neoliberal goal of growth to one of growth with equity that involves a radically enhanced role for the state. In CEPAL's model, the state would leave production, ''wherever possible,'' to the private sector. But the state would, in effect, manage and regulate the private sector, intervening when required to move the economy to a higher technical and industrial level, while also taking responsibility for adequate funding for public health, education, and the social safety net.

Green is supportive of CEPAL's model: ''As a recipe for a fairer and more effective path to economic development, neostructuralism is an impressive body of thought, drawn on the lessons of successful economies elsewhere and rejecting the dogma of both import substitution and the Silent Revolution'' (p. 190). But the neostructuralism model is acknowledged by Green to have weaknesses. The first weakness is political—the IMF, World Bank, Washington, and so forth, must be convinced that it can work. In the process, CEPAL must transform a traditionally inept, corrupt state into an efficient, honest regulator and strategic planner. The program may also create a contradiction of sorts by calling for both increased democratization and Asian NIC–style long-term development, since Asian NICs ''held down'' consumption through authoritarian controls antithetical to democracy. It is difficult to envision a democratic Latin America tolerating austerity programs to further long-term development goals at the expense of consumption.

Latin American countries today probably cannot successfully emulate the Asian NIC model for, in addition to limiting consumption, the state apparatus actively promoted exports and stringently controlled imports, very difficult programs to implement in today's world of GATT (General Agreement on Tariffs and Trade) and the World Trade Organization. Also, Asian NIC policies were facilitated by enormous amounts of foreign aid because of their geopolitical importance in the 1950s. By contrast, Latin America, except for Mexico, carries relatively little geopolitical weight.

IV. Recent Latin American Performance and Prospects

International agencies such as the World Bank are upbeat about Latin American economic performance. One 1996 assessment states, ''Latin America is in the midst of one of the most decisive regional transformations of the post–cold War era, building one of the world's largest zones of democracy and free markets. The results are apparent. Annual growth rates now average 3.5 percent as opposed to just over 1 percent in the three years before 1991. Eighteen out of 22 countries in the region have inflation rates below 25 percent—averaging 12 percent. The flow of total foreign investment to the region went from an average of less than $10 billion in 1988–90 to closer to $34 billion in 1995.''[6]

But a darker side is included in the same assessment: ''About one of every three people—165 million total—still live on less than $2 a day. Roughly a third of the population has no access to electricity or basic sanitation, and an estimated 10 million children suffer from malnutrition.''[7]

In fact, recent Latin American economic performance has been quite mixed. The post-1982 years were very difficult ones for most countries; between 1982 and 1994 only 11 of 23 countries had GDP growth per capita. True, after 1990, growth was broader as five additional countries experienced GDP growth per capita. But, since 1990, only Argentina, Chile, Guyana, and Panama had per capita growth of 4% or more, and average per capita GDP growth was only 1.6% yearly from 1990 to 1995.

Real wage levels rose in 14 countries after 1990, in nine countries by more than 10%, while in four countries there were no increases (five countries had no wage data). But by 1994, only in Brazil, Chile, Panama, Colombia, and Costa Rica had real wages exceeded the level reached in 1982.

The question is: What are future economic prospects under the neoliberal model? Neoliberals emphasize that their policies have opened up trade and integrated Latin American economies into the world economy. They also point to partial evidence indicating that privatization and market reforms have increased efficiency and reduced prices for many consumer products while bringing down inflation rates.

Edwards categorized countries as early reformers, second-wave reformers, third-wave reformers, and nonreformers. He argues that time is needed after reform to improve economic performance. It does not happen overnight. Yet, of the three early reformers as categorized by Edwards—Bolivia, Chile, and Mexico—only one, Chile, has had continued GDP growth. Of the second wave of reformers—Costa Rica, Jamaica, Trinidad and Tobago, and Uruguay—none had annual average real GDP growth of 4% or more after 1990. Although wages did rise for early and second-wave reformers, 1982 levels were surpassed by 1994 only in Costa Rica and Chile (for countries with wage data).

The lack of positive results for real wages, poverty reduction, and inequality highlights a dilemma for neoliberal reformers. Granted, economic performance has improved overall in trade, deficit reduction, inflation, and efficiency, but, to date, the only clear overall success story has been Chile. For other reformers, GDP and wage levels have risen, but not at a high enough rate to compensate for the earlier losses during the 1980s.

In 1969, the World Bank estimated that 11% of Latin Americans were living in poverty. By 1985, poverty levels reached 19% and then skyrocketed to 33% by the early 1990s. These increases are alarming, considering the depth and breadth of market-friendly reforms already in place for some years.

Recent economic progress has not been consistently positive, either. Numerous cracks are appearing in Latin American economies. For example, Argentina, after strong per capita growth from 1990 to 1994, fell into recession in 1995. Recovery from recession and near record unemployment is predicted to be slow and fiscal performance is currently inadequate to meet IMF repayments.[8] Brazil has reduced inflation and fiscal deficits but is now also experiencing slow growth and renewed fiscal deficits, at the same time ignoring its poor, who now comprise almost half of Latin America's poverty population. Yet today Brazil's major "perceived" problem is its overvalued currency, not the poor.[9] Colombia, with solid growth since 1985 and a sharply declining poverty rate (down to 19% over 3 decades), is also stumbling. As GDP growth has fallen recently, the government response is toward more spending and budget deficits, despite high inflation.[10]

Mexico still has recession-related problems. Although a fierce peso devaluation has boosted exports and GDP growth, serious questions are being raised about how long a real recovery may take. Meanwhile, by mid-1996, inflation has already eaten away 20% of last year's purchasing power, and unemployment and poverty are getting worse.[11] Peru, after strong growth from 1993 to 1995, has fallen into recession as major cuts in public spending were made to repay foreign debt. The cuts have created added misery for Peru's 24 million people, half of whom already live below the poverty line. President Alberto Fujimori, although elected democratically in 1995, is exercising near dictatorial power.[12] Venezuela is currently undertaking market-friendly reforms to correct an inflation rate of 71%, large deficits, and overvalued exchange rates. Reforms are expected to deepen the current recession with unemployment already at 11%.[13]

V. A Critique of Edwards, Green, and the Neoliberal Model

Edwards and Green are in substantial agreement regarding some basic aspects of post-1982 Latin American development: first, the import-substitution industrialization model had outlived its usefulness by 1982; second, reforms were necessary to curtail numerous excesses—deficit spending, inflationary financing, inefficient government enterprises, and excessive protectionism. However, Edwards and Green are far apart on other key issues: first, effective limits on the role of the state in the economy; second, free-trade policy enforced by outside international agencies such as the IMF and World Bank; third, privatization of key public sectors of the economy—transportation, mining, oil extraction, and public enterprises; fourth, the terms and conditions of debt servicing as a precondition for international loans and grants; and fifth, the need for so-called rationalization of labor markets.

Edwards makes the case that neoliberal reforms improved trade and market performance, increased economy-wide efficiency and productivity, and lowered some consumer prices. And neoliberal policies reduced government deficits and inflation rates while new institutions, such as independent central banks, helped stabilize regional economies. Since 1990, GDP growth per capita has resumed for most countries, although at less than half the rate of the pre-1982 period.

Green criticizes neoliberal practices as being far too costly, since they caused the following: first, deep, painful recessions and large devaluations in order to keep debt service payments current; second, the abandonment of protection from cheap imports while domestic export producers still faced severe barriers abroad; third, restrictions in public-sector programs that hurt the poor; and fourth, the dismantling of minimum wages, hours, and laws regulating working conditions and employment protection—all of which damaged the labor sector.

A recent study by Samuel Morley supports Green's contention that neoliberal adjustment was excessively costly in Latin America. Countries were forced into longer recessions than necessary in order to generate the needed trade surpluses required to meet debt and interest payments. Commercial banks were not a continuing source of finance after the 1982 crisis. The region went from receiving an average of 4% of GDP from external sources to transferring about the same amount to its creditors. Latin American countries were also forced to repay in real terms faster than planned, due to a rise in inflation in the United States. The solution: make new loans at a rate just sufficient to keep the real amortization rate constant. Morley blames foreign commercial banks, the IMF, and the World Bank for making the poor of Latin America pay an unnecessarily heavy price for adjustment.[14]

Recent studies also support Green's contention that the institution of market-friendly reforms worsened income distribution in Latin American countries. The normal observed increase in inequality accompanying neoliberal reforms is 5–10 points, as measured by the Gini coefficient of primary income.[15] At a GDP per capita annual growth rate of 2% per year—slightly higher than actual post-1990 growth—nearly 10 years of distribution-neutral growth would be required to recover the lost ground implicit in this income share decline.[16]

As Edwards admits, poverty-reduction policies are now essential because GDP and wage growth are too slow in most countries (and will be slow for the foreseeable future) to allow LAC countries to grow their way out of poverty and inequality. Edwards emphasizes the danger that LAC democracies will jettison neoliberal reforms and return to populism.

The pertinent question is, What serious, specific efforts are being made toward decreasing poverty and reducing inequality? This means a high priority on poverty reduction and not just an easing of the harsh impact of market reforms. A number of countries tempered some of the harsh impact of market reforms during the 1980s and early 1990s, but there is no evidence of current large-scale, country-specific, targeted projects to reduce poverty and inequality.

Perhaps Edwards is proposing what was relatively successful in Chile. After 17 years of dictatorship under Augusto Pinochet, the democratically elected governments of Patricia Aylwin and Edwardo Frei persuaded the elites to accept a tax increase while the government increased social spending on health, education, and poverty relief. The results were impressive: more than a million Chileans rose out of poverty between 1987 and 1992. Wage levels rose after 1987, as did social indices such as primary school attendance. But Chile's success may be due as much to its natural wealth that permitted rapid export growth as to its neoliberal economic policies. Also, it took Chile almost 15 years to bring about sustained growth and wage increases. And despite these relative successes, income distribution in Chile remains among the most unequal in Latin America.[17]

Critics of the neoliberal model who favor alternative approaches must realistically ask how much can be achieved within the current economic and political constraints in Latin America. As Green puts it, the challenge is to determine what margin for maneuvering really exists. Green would rein in, or even abolish, the IMF and World Bank (p. 207). He believes that Latin America desperately needs debt-service relief from the $30 billion transferred abroad yearly if it is to save and invest for a meaningful future. Recently, the IMF and World Bank proposed a $5.6 billion new program of limited debt relief for the very poorest and most indebted—mainly African—countries.[18] But little, if any, of these funds will go to Latin American countries.

There are problematic aspects of both Edwards's and Green's treatment of Latin American growth after 1982. The first problem is their omission of population and labor force growth. Green does not even mention population growth, while Edwards includes only a brief discussion in chapter 8, where he incorrectly shows population growth in Latin America slowing from 2.1% in 1980–90 to 1% in 1990–92 (p. 267). The World Bank correctly reports that the population grew by 1.6%.[19] The World Bank also projects Latin American population growth from its current level of 470 million to 709 million by 2025 and labor force growth that will grow even more rapidly, from 180 million today to 333 million by 2025.[20]

Latin America's population, which is very young, unskilled, and dependent, is increasing at triple the rate of industrial nations, implying future unemployment and poverty rates much greater than the barely tolerable rates of today.[21] Neither Edwards's modified neoliberal model nor Green's growth-with-equity model directly addresses the issue of large-scale labor redundancy. Emigration to the United States, a major escape valve to date, especially from Mexico, the Caribbean, and Central America, and remittances of emigrants have been major sources of direct foreign aid, but barriers to entry could soon be raised substantially in the United States, due to the perceived high net costs of immigrants.[22]

A second criticism is that neither Edwards nor Green analyzes the trade-offs between using resources for reduction of poverty and inequality versus larger investments to induce faster long-term growth. In brief, greater spending on poverty and inequality reduction means less saving and investment and, therefore, less future GDP growth. Neoliberals argue that, in the long-run, the poverty problem will be better solved by growth than by wasteful social programs. However, if poverty conditions are very severe during an adjustment period, temporary targeted social compensation programs are preferred by neoliberals to policies that reduce inequality because the latter more permanently reduce growth prospects.

Edwards believes GDP can be reallocated toward targeted social services without either impairing fiscal adjustment or efficiency objectives. He states, "With public expenditures usually accounting for 25 percent of GDP, a 10 percent reallocation of the budget can have a significant impact on the welfare of the poorest groups" (p. 313). This is overly optimistic. True, several Latin American countries have expenditures close to 25% of GDP—Bolivia, Chile, Brazil, Panama, and Uruguay. But others—Venezuela, Peru, Paraguay, Ecuador, and El Salvador—are only in the 10%–15% range and would have much less to reallocate. Moreover, most countries are in budget deficit, so the reallocation is of deficit spending at the margin, not government revenues.[23]

Poverty reduction and income equality could potentially also be achieved in the long run by eliminating taxes on labor and subsidies on capital. Neoliberals such as Edwards believe that "rationalization" of labor markets will promote labor-intensive growth. It is true that eliminating minimum wages and subsidies on capital should increase labor usage. However, labor market "rationalization," as under Decree 21060 in Bolivia and elsewhere, entailed much more—labor downsizing by state firms, "free contracting" that enables private firms to hire and fire at will, and reduction of union power. In these instances, labor intensity will likely diminish. Edwards believes that labor "rationalization" in Latin America is badly needed and should improve employment and earnings, over time. On efficiency grounds he is correct, but labor reforms may also well widen earnings differentials as they did in Chile and Argentina. One crucial determinant is the size of the "protected" sector, where protected refers to favored workers who are earning large rents in either union or public employment. If the protected sector is large, as in Chile and Argentina, earnings differentials will probably widen. In most populous, urban LAC countries, the protected sector is large.

Labor-intensive growth is unlikely, based on past experience and projected institutional arrangements. Technical change has not been labor intensive in the past and is unlikely to be so in the future, even in "rationalized" labor markets. Barring breakthroughs in the search for efficient, labor-intensive technologies for the Third World, and no great sectorial investment shifts, great changes should not be expected. Neither is foreign direct investment likely to be labor intensive. Transnational firms typically apply capital-intensive technology, developed more for expensive labor in home markets, rather than for cheap labor in Latin America. Indeed, a recent study concluded that the comparative advantage of the region does not even lie in unskilled labor-intensive products.[24]

Labor redundancy is likely to get much worse before it gets better.

Green makes the valid point that current free-trade agreements will result in millions more rural peasant farmers being driven out of farming as protective tariffs are phased out in Latin America. Mexican farmers, for example, cannot compete with cheap U.S. agricultural imports, but protective tariffs for them must be phased out over the next 10 years under NAFTA (North American Free Trade Agreement).

Neither author analyzes the employment potential of the small and medium enterprise sectors even though it is widely known that promotion of small-scale agricultural and labor-intensive industries can be an effective poverty-reducing development strategy. Green does include several examples of community-based programs at the grassroots level as in Maraba, Brazil, where rural workers' unions have joined together to form the Farming Foundation of Tocantine-Araguaia to develop, produce, and market sustainable crops that are environmentally friendly. Many such experiments have been successful at a local level across Latin America. With appropriate small-scale credit, these cases could be multiplied many times over, resulting in both improved food security and poverty reduction. As a part of its development strategy, CEPAL gives high priority to "people-centered," small-scale, labor-intensive projects. Unfortunately, the overall quantitative significance of grassroots projects for employment is unknown.

VI. Conclusion

Despite their omission of several important topics, both Edwards and Green have made solid contributions to the literature on neoliberalism's impact on Latin America's development path. The reader is provided with useful descriptions and analyses of LAC countries between 1982 and the early 1990s. If possible, the books should be read together or in sequence to fully grasp and compare each author's data set, hypotheses, and interpretations. Edwards's volume is comprehensive in scope with numerous technical appendixes and citations. It is a slow read, though efficiently written and organized. Green's volume is shorter in length and faster reading, less technical, and very well written. In essence, the two authors carry on a lively, though indirect, debate regarding Latin American development policy under neoliberalism's influence and the roles of the IMF, the World Bank, and Washington in encouraging the adoption of such policies. The debate is a serious one. Both authors agree that time may be running out for Latin America if chaos is to be avoided. The fabric of economic and social life may unravel, perhaps irrevocably, unless new policies generate faster growth, increased equality, and reduced poverty.

Despite their disagreement about neoliberalism, Edwards and Green do concur on a limited set of policy priorities. First, investments are needed in education and training systems, since low-skilled persons are being left behind. Second, poverty reduction is a top priority. Better social targeting is necessary, since social spending has not been efficiently implemented in the past. I would add a third priority—credit and technical assistance for the small and medium enterprise sectors—in order to achieve the goals of more rapid poverty reduction and expansion of productive employment. A fourth priority would include greater attempts to limit both population growth and the undue exploitation of nonrenewable natural resources such as old-growth timber, oil, and clean water. Neither author includes considerations of either sustainable growth or deep ecology issues in his analyses. In this sense, the authors' frameworks are narrowly confined to those of standard economics.

Determining just how to design programs to implement the above policies efficiently, while also maintaining macro stability and internal and external balance, is an issue not tackled by either Edwards or Green. Comprehensive answers will require additional data, research, and a good deal of creativity. Finding the answers and then implementing the right policies should receive the highest priority.

Notes

1. Sebastian Edwards, *Crisis and Reform in Latin America: From Despair to Hope* (Oxford: Oxford University Press for the World Bank, 1995), pp. viii + 364; and Duncan Green, *Silent Revolution: The Rise of Market Economies in Latin America* (London: The Latin American Bureau, 1995), 266.

2. See Fransisco Gil-Diaz and Augustin Carstens, "One Year of Solitude: Some Pilgrim Tales about Mexico's 1994–95 Crisis," pp. 164–69; Guillermo A. Calvo and Enrique G. Mendoza, "Petty Crime and Cruel Punishment: Lessons from Mexico's Debacle," pp. 170–75; and Sebastian Edwards, "Exchange-Rate Anchors, Credibility, and Inertia: A Tale of Two Crises: Chile and Mexico," pp. 176–80; all in *American Economic Review: Papers and Proceedings* ("The Mexican Peso Crisis: Causes and Policy Lessons," ed. David Baldwin and Ronald L. Oaxaca) 86, no. 2 (May 1996).

3. Green (p. 23) quotes Xavier Gorostiaga, *Latinamerica Press* (Lima; May 6, 1993).

4. Green (p. 93) quotes George Psacharopoulos et al., *Poverty and Income Distribution in Latin America: The Story of the 1980's* (Washington, D.C.: World Bank, 1982), p. ix.

5. See Francis Stewart, "The Many Faces of Adjustment," *World Development* 19, no. 12 (1991): 1849.

6. Richard A. Frank, "Latin America's Prospects Good News for U.S.," *Houston Chronicle* (April 24, 1996). Frank is the managing director and chairman of the Private Sector Development Group at the World Bank.

7. Ibid.

8. Jonathan Friedland, "Renewed Growth Seen for Argentina as Nation Recuperates from Recession," *Wall Street Journal* (May 14, 1996).

9. Matt Moffett, "Brazil Warned of Overvalued Currency," *Wall Street Journal* (June 3, 1996).

10. Sebastian Edwards, "Colombia Flirts with Macroeconomic Populism," *Wall Street Journal* (May 17, 1996).

11. Anthony DePalma, "Mexico Economy Shrinks, but Not as Fast as Before," *New York Times* (May 18, 1996).

12. Michael Allen, "Fujimori's Austerity Plan Helps Peru with Bankers,"

Wall Street Journal (May 21, 1996); Calvin Sims, "Peru's President Loses Some Luster," *New York Times* (May 19, 1996).

13. See, e.g., Thomas T. Vogel, Jr., "Latin Market Fiesta Continues," *Wall Street Journal* (May 23, 1996); Alejandro J. Sucre, "IMF Underwrites Venezuela's Bad Policies," *Wall Street Journal* (June 7, 1996).

14. Samuel Morley, *Poverty and Inequality in Latin America: The Impact of Adjustment and Recovery in the 1980's* (Baltimore: Johns Hopkins University Press, 1992), pp. 191–92.

15. Albert Berry, "The Income Distribution Threat in Latin America" (Comparative Economic Association, San Francisco, 1996, mimeographed).

16. Ibid., p. 24.

17. Morley, pp. 30–31. Real wages fell during the recession and then eventually rose after 1990. But the Gini coefficient also rose from 0.52 in 1979 to 0.54 by 1990, indicating a rise in inequality. Only Brazil, Guatemala, and Panama had higher Gini coefficients than Chile by 1989–90.

18. Paul Lewis, "Debt Relief Cost for the Poorest Nations: IMF and World Bank Estimate at Least $5.6 Billion for 6 Years," *New York Times* (June 10, 1996). This relief program is designed for the poorest, most heavily indebted developing countries. Few LAC countries would qualify except perhaps Nicaragua, Honduras, Guyana, and Surinam.

19. World Bank, *World Development Report, 1995* (Oxford: Oxford University Press, 1995), pp. 210–13.

20. Ibid.

21. Ibid.

22. Donald L. Huddle, "The Net National Costs of Immigration in 1994," in his *Carrying Capacity Network* (Washington, D.C.: Carrying Capacity Network, 1995), pp. 1-23, and "A Critique of the Urban Institute's Claims of Cost-Free Immigration: Early Findings Confirmed," *Population and Environment* 16, no. 6 (July 1995): 507–20.

23. World Bank, pp. 180–81.

24. Berry, p. 25.